

STATE OF HAWAII—DEPARTMENT OF TAXATION
**GENERAL INSTRUCTIONS FOR
THE FILING OF FORM F-1**
**FRANCHISE TAX FOR BANKS, BUILDING AND LOAN
ASSOCIATIONS, FINANCIAL SERVICES LOAN COMPANIES,
OTHER FINANCIAL CORPORATIONS, AND SMALL BUSINESS
INVESTMENT COMPANIES**

Chapter 241, Hawaii Revised Statutes (HRS)

References to sections are to Internal Revenue Code sections, unless otherwise stated.

Changes You Should Note For Next Year.

Act 85, Session Laws of Hawaii 1995, repealed the provisions relating to the allocation and separate accounting of income. Act 85 required financial institutions to allocate and apportion their income under the Uniform Division of Income for Tax Purposes Act (UDITPA). These changes will apply to the entire net income received for the calendar year 1996 and subsequent years. For taxpayers operating on a fiscal year basis, the changes will apply to the entire net income for the fiscal year in which January 1, 1997, occurs and subsequent years.

Initial Year Of Doing Business. Banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies and qualifying subsidiaries, and small business investment companies engaged in their initial year of doing business and filing a franchise tax return for the first time must file an estimated franchise tax return of the tax due. The tax due on the estimated tax return shall be based on an estimate of the net income of the taxpayer for the first year of doing business or for the part of the first year in which it is in business. The tax shall be at the rate provided in section 241-4, HRS, on Form F-1. The estimated tax return shall be filed and the amount of estimated tax paid on or before the 20th day of the third month after the first month the taxpayer began business. The payment of the tax shall accompany the return unless an extension of time for the payment has been granted in writing by the Director of Taxation. Any request for an extension of time for payment of the tax must be made in writing to the Director before the filing due date of the initial year estimated tax return. The Form F-1 box for "First Year Return" should be checked on the estimated return filed.

After the close of the initial year of doing business, an amended franchise tax return shall be made to reflect the tax on the actual net income of the initial year of doing business. Any variance between the tax paid on the estimated tax return filed and the tax due on the actual net income for the initial year shall be adjusted by the amended tax return. A credit or refund of the taxes overpaid, or payment of additional taxes due shall be shown on the amended tax return. The words AMENDED RETURN should be written on the top of the Form F-1 and the box indicating "First Year Return" checked off.

The amended return shall be made and filed, and any tax due paid on or before the 20th day of the 4th month following the close of the taxable year in which the taxpayer commenced business.

Second Year Of Doing Business. An estimated tax return is also required of taxpayers in the second year of doing business.

The estimated net income is determined by utilizing the average monthly net income of the first taxable year of doing business multiplied by twelve. Both the payment of the tax as well as the filing of the return shall be made on or before the 20th day of the 4th month following the close of the 1st taxable year of doing business.

An amended franchise tax return shall be filed after the close of the second year of doing business. Any variance between the estimated tax paid and the tax on the actual net income for the second year shall be adjusted and a credit or refund made, or payment of the additional tax due, depending upon whether the estimate was in excess of, or less than the recomputed tax due. The amended tax return shall be made and filed on or before the 20th day of the 4th month following the close of the 2nd taxable year. The words AMENDED RETURN should be written on the top of the Form F-1 and the box "Second Year Return" checked off.

Consolidation Or Merger Of Banks, Building And Loan Associations, Development Companies, Financial Corporations, Financial Services Loan Companies, Trust Companies, Mortgage Loan Companies, Financial Holding Companies and qualifying Subsidiaries, and Small Business Investment Companies.

Whenever there is a consolidation or merger of taxpayers subject to the tax imposed by chapter 241, HRS, the tax shall attach to the taxpayer thus formed and the net income which shall be used for measuring the tax of the taxpayer thus formed shall include the net income of the taxpayers which were consolidated or merged.

Taxpayer Terminating Business Operations. If a taxpayer subject to the tax imposed by chapter 241, HRS, terminates business operations during the calendar or fiscal year and other than in an acquisition by another company, or merger, or consolidation, the tax shall apply to the actual net income for the taxable year or part of the taxable year the taxpayer continued business operations.

If a taxpayer subject to the tax imposed by chapter 241, HRS, terminates business operations during the taxable year:

- (1) Before the tax return is filed as required under section 241-5, HRS, a short year return shall be made and filed and the tax shall apply to the actual net income for the taxable year or part of the taxable year during which the taxpayer continued business operations; or
- (2) After the return has been made and filed as provided in section 241-5, HRS, an amended return shall be made and filed to show the actual net income for the taxable year or part of the taxable year during which the taxpayer continued business operations. Any variance between the tax computed and paid on the basis of the entire net income of the preceding calendar or fiscal year and the actual net income for the final year or part of a year of business operations shall be adjusted and a credit or refund made, or the payment of additional tax shall be made.

The return made under paragraph (1) or (2) shall be filed and the tax imposed by this chapter shall be paid on or before the 20th day of the 4th month following the month business operations ceased or the close of the taxable year, whichever is earlier. The box on Form F-1 indicating a "Final Return" should be checked off.

The foregoing instructions relating to estimated and amended franchise tax returns apply to taxpayers doing business in the initial, second or final year of operations.

Taxpayers engaged in their third or subsequent year of operations would compute the tax in the usual manner provided under sections 241-4 and 241-5, HRS.

I. Who Must File Form F-1 and Pay the Franchise Tax.

- (a) Every national banking association located in the State of Hawaii.
- (b) Every bank organized under the laws of the State.
- (c) Every corporation doing a banking business within the State under the authority of chapters 403 and 405, HRS.
- (d) Every foreign bank doing business in the State under the authority of chapter 405D, HRS.
- (e) Every federal savings and loan association located in the State.
- (f) Every building and loan association subject to the provisions of chapter 407, HRS.
- (g) Every financial services loan company subject to the provisions of chapter 408, HRS.
- (h) Every financial holding company registered under the Federal Bank Holding Act of 1956, or registered as a savings and loan holding company under the Home Owners' Loan Act of 1933.
- (i) Every mortgage loan company licensed under chapter 454, HRS.
- (j) Every subsidiary corporation doing business in Hawaii engaged in activities set forth in Title 12 of the Code of Federal Regulations, sections 225.22 and 225.25 or sections 584.2-1 and 584.2-2, and whose voting stock is more than eighty percent owned by a financial holding company, bank, building and loan association, financial services loan company, financial corporation, or trust company.
- (k) Every trust company authorized to conduct business as trust company under chapter 406, HRS.
- (l) Every corporation, domestic or foreign, which is a financial corporation (1) within the meaning of section 5219 of the Revised Statutes of the United States, as amended (12 U.S.C. 548), or other similar law, or (2) an interbank broker (effective 7/1/90), doing business in the State and not subject to the taxes imposed by chapters 237 and 235, HRS, or not subject to one of these taxes.

However, an insurance company which pays the tax on premiums imposed by chapter 431, HRS, is excluded.

- (m) Small business investment company approved by the federal Small Business Administration and issued a license to operate under the provisions of the federal Small Business Investment Act of 1958, as amended.
- (n) Every development company approved by the federal Small Business Administration to operate under the provisions of Title V of the federal Small Business Investment Act of 1958, Public Law 699, as amended.

II. “ Franchise Tax Date,” “ Income Year,” chapter 241, HRS, References, Explained.

- (a) The franchise tax date is January 1 of each year.
- (b) The income year is the year the income of which is the measure of the tax for the franchise tax year involved, that is, the calendar year preceding the franchise tax date, or in the case of a taxpayer operating on a fiscal year basis, the fiscal year in which the franchise tax date occurs.
- (c) Chapter 235, HRS, whenever reference is made to the chapter, means chapter 235, HRS, known as the Hawaii Income Tax Law. The provisions of chapter 235, HRS, that are to be followed are the provisions of chapter 235, HRS, as amended, and applicable for income tax purposes in respect of income derived or received on and after the franchise tax date. For example, if January 1, 1991 is the franchise tax date and the calendar year 1990 is the income year the governing provisions of chapter 235, HRS, are those applicable to the 1991 income of corporations which file under chapter 235, HRS.

III. Rate and Measure of Tax.

The rate of the franchise tax is 7.92% for the franchise tax date beginning January 1, 1994, and thereafter (fiscal year taxpayers, the year in which January 1, 1994 occurs, and thereafter). The tax is measured by the entire net income from all sources of the income year, i.e., the calendar year preceding January 1, or in the case of a fiscal year corporation, the fiscal year in which January 1 occurs. (“January 1,” to which reference is made, is the franchise tax date, as explained in II.)

IV. Determination of Entire Net Income From All Sources For The Income Year.

- (a) The “entire net income from all sources” for the income year is determined in the same manner as “taxable income” under the Internal Revenue Code of 1954, as amended, and as further amended by the Hawaii Legislature except as otherwise provided in chapter 235 or chapter 241, HRS. These instructions set forth the adjustments to be made in IRC taxable income as determined before the net operating loss deduction.
- (b) The expression “entire net income from all sources” is used to signify the inclusion in the measure of the franchise tax of net income that would be excluded if the tax were imposed on the net income itself, such as interest on obligations of the United States. The law requires that all items constituting “income” be included in gross income in computing net income as the measure of the franchise tax imposed by chapter 241, HRS, even though if the tax were imposed on the net income itself the item would not be subject to taxation by the State under the Constitution and laws of the United States or would be excluded by section 235-7(a)(5), HRS, relating to exempt payments made by the United States or the State, or by section 235-7(a)(7), HRS, relating to income expressly exempted by laws of the State other than the Hawaii Income Tax Law itself. However, as shown by Instruction VIII, the exemption allowed by Act 241 of the Session Laws of 1957 does apply in computing the measure of the franchise tax imposed by chapter 241, HRS.

The expression “entire net income from all sources” does not signify inclusion of net income from sources outside the State, as further explained in Instruction V.

- (c) While the adjustments to be made in determining the entire net income from all sources for the income year are explained in the instructions that follow, these instructions necessarily are general. They do not purport to set forth each and every adjustment that is to be made. Specific questions should be submitted in writing for a ruling.
- (d) Section 235-92, HRS, is operative for chapter 241, HRS. The filing of a consolidated franchise tax return is allowed for a bank, building and loan association, financial corporation, financial services loan company, small business investment company, development company, mortgage loan company, trust company, or financial holding company and its subsidiaries, as defined in section 241-1, HRS.

V. Sources Within and Without the State.

- (a) Pursuant to section 241-4(b)(2), (3) and (4), HRS, and section 235-7(e)(2), HRS:
 - (1) The gross income from property owned, trade or business carried on, and other sources outside the State is excluded from the measure of the

franchise tax. The excluded gross income shall be determined by an allocation and separate accounting. In the case of income from intangibles, the situs of the intangibles usually is determinative of the source of the income. The situs must be determined under the applicable legal principles, with due regard to the facts. However, reserves must be allocated pursuant to the last sentence of section 241-4(b)(3), HRS, and the income from the assets representing the amount of reserves allocated to the State under this provision must be included in the measure of the franchise tax.

- (2) Deductions connected with excluded income from sources outside the State are not allowable. Losses from property owned outside the State and from other sources outside the State are not deductible. Interest paid or accrued to purchase or carry property owned without the State, or to carry on trade or business without the State, is not deductible. Proper adjustments must be made so that no such deductions are taken.

VI. Interest on Obligations of United States, States, etc.

- (a) Whether or not included in determining federal taxable income, there must be included in gross income under chapter 241, HRS, the interest:
 - (1) Upon obligations of the United States or its possessions, or upon securities issued under the authority of an Act of Congress.
 - (2) Upon state, territorial, municipal, county or other bonds or securities, including Hawaiian issues.
- (b) Interest paid or accrued within the income year or indebtedness incurred or continued to purchase or carry the securities the interest upon which is included in the franchise tax return, to the extent not deducted as part of the federal return, may be deducted as an adjustment of federal taxable income.

VII. Bad Debts.

- (a) The deductions allowed by sections 166 and 593 do not apply. However:
 - (1) The provisions of the Internal Revenue Code as to the debts which may be the subject of a bad debt deduction apply in determining the bad debt deduction allowed by section 241-4(b)(5), HRS. That is, except in the case of a bank, a security may not be the subject of a bad debt deduction.
 - (2) The basis for determining the amount of the deduction for a bad debt is provided in section 166(b) which states that: “...the basis for determining the amount of the deduction for any bad debt shall be the adjusted basis provided in section 1011 for determining the loss from the sale or other disposition of property.”
- (b) In order to make the adjustment required because the deductions allowed by sections 166 and 593 do not apply, there must be added to federal taxable income the amount of the deduction for bad debts or for addition to a reserve for bad debts taken on federal return. The deduction allowed for bad debts by section 241-4(b)(5), HRS, will be a further adjustment of federal taxable income, as set forth in (c) below.
- (c) Under section 241-4(b)(5), HRS, there are two methods of treating bad debts, set out below as (1) and (2). However, the use of method (2) is in the discretion of the Director of Taxation. Established businesses which prior to the income year had built up an adequate reserve for bad debts will not be permitted to use method (2).
 - (1) Debts ascertained to be worthless and charged off on the books of the taxpayer within the income year may be deducted. When the Director of Taxation is satisfied that a debt is recoverable only in part, the nonrecoverable amount, to the extent charged off on the books within the income year, may be deducted. In order to deduct a debt in part, a taxpayer must be able to demonstrate to the satisfaction of the Director of Taxation the amount thereof which is not recoverable and the part thereof which was charged off.
 - (2) As an alternative to the treatment of bad debts by method (1), a taxpayer having permission to do so and electing to use this method may deduct a reasonable addition to a reserve for bad debts. If an election to use method (2) is made and the Director of Taxation grants permission to do so, this method must be used in returns for all subsequent years unless permission is granted by the Director of Taxation to change to method (1). Application for permission to change to method (1) must be made at least thirty days prior to the close of the income year for which the change is to be effective.

Enter on line 14(a) the amount for the current year from Schedule F, column 5 or 7.

VIII. Dividends.

- (a) The entire amount of dividends received upon the shares of stock of a national bank is excluded from gross income.
- (b) The entire amount of qualifying dividends, as defined in section 243(b) received by members of an affiliated group.

(c) The special deductions allowed on a federal return are not allowed. However, there is allowed a deduction of 70% of the amount received as dividends upon certain stocks as follows:

- (1) Shares of stock of any corporation if at the time of payment of the dividends at least 95% of the paying corporation's capital stock is owned by one or more corporations doing business in the State and if such other corporation is subjected to an income tax in another jurisdiction.
- (2) Shares of stock of a bank or insurance company organized and doing business under the laws of the State.
- (3) Shares of stock of any corporation, if at least 15% of the paying corporation's business, for the taxable year of that corporation preceding the payment of the dividend, has been attributed to the State and subjected to assessment of the taxable income therefrom, as set forth in section 235-7(c)(3), HRS.

IX. Capital Gains.

- (a) Alternative Tax Treatment. Section 1201, with respect to alternative tax on capital gains, is operative for chapter 241, HRS. A tax of 4 percent of the net capital gains is imposed.
- (b) In the case of the sale or exchange of a bond, debenture, note, or certificate or other evidence of indebtedness, sections 582(c) and 1243 shall apply.

X. Disaster Losses.

- (a) At the election of the taxpayer losses of property owned in the State, sustained as the result of a tidal wave, hurricane, earthquake, or volcanic eruption, or as the result of flood waters overflowing the banks or walls of a river or stream, or from other natural disaster, if otherwise deductible, may be prorated in equal installments over a period of five years.
- (b) In order to exercise this election, the taxpayer must, in computing "entire net income from all sources" for the income year in which the loss was sustained, reduce the amount otherwise deductible to the one-fifth installment which is deductible pursuant to the election. This adjustment, for the income year in which the loss was sustained, will consist in the addition to federal taxable income of four-fifths of the loss deducted on the federal return for the income year. For subsequent income years this adjustment will consist in the deduction from federal taxable income of the pro rata installment for the year.

XI. Federal Income Tax.

The deduction for federal income tax is no longer allowed.

XII. Net Operating Loss.

The net operating loss deduction allowed by section 172 shall apply.

XIII. Change in Federal Taxable Income, Required Reports.

- (a) Section 235-10(b), HRS, which pursuant to section 241-6, HRS, applies to the franchise tax, requires a report to the Director of Taxation if the amount of federal taxable income is changed, corrected, adjusted or recomputed as stated in (c).
- (b) This report must be made:
- (1) Within 90 days after a change, correction, adjustment or recomputation is finally determined.
 - (2) Within 90 days after an amended return is filed.
 - (3) At the time of filing the next franchise tax return, if earlier than set forth in (1) or (2).
- (c) A report within the time set out in (b) required if:
- (1) The amount of taxable income as returned to the United States is changed, corrected or adjusted by an officer of the United States or other competent authority.
 - (2) A change in taxable income results from a renegotiation of a contract with the United States or a subcontract thereunder.
 - (3) A recomputation of the income tax imposed by the United States under the Internal Revenue Code results from any cause.
 - (4) An amended income tax return is made to the United States.

XIV. Filing of Returns.

- (a) **Time.** In the case of calendar year corporations, returns shall be filed on or before April 20, following the close of the calendar year (income year). In the case of fiscal year corporations, returns shall be filed on or before the 20th day of the 4th month following the close of the fiscal year (income year).

(Note: If the due date falls on a Saturday, Sunday, or legal State holiday, the return shall be due on the next regular business day.)

Upon good cause shown, the Director of Taxation may grant a reasonable extension of time for filing the return but in no case shall the extension be for more than 6 months. File Form N-755 to request an automatic 6-month extension of time to file Form F-1.

If the corporation ceases to exist, write "Final Return" at the top of the form. Refer also to the Important Changes in Franchise Tax Section on page 1.

- (b) **Place.** Returns shall be filed with the Tax Assessors for the taxation district office in which the principal place of business of the corporation is located. The addresses of the district offices are as follows:

Oahu District Office, P.O. Box 3559, Honolulu, Hawaii 96811-3559
Maui District Office, P.O. Box 913, Wailuku, Hawaii 96793-0913
Hawaii District Office, P.O. Box 1377, Hilo, Hawaii 96721-1377
Kauai District Office, P.O. Box 1688, Lihue, Hawaii 96766-5688

- (c) **Authentication.** Returns shall be authenticated by the signature of the president, vice president, treasurer, assistant treasurer, chief accounting officer or any other officer duly authorized so to act. The fact that an individual's name is signed on the return shall be prima facie evidence that such individual is authorized to sign the return on behalf of the corporation.

XV. Payment of Tax.

The tax must be paid on or before the date prescribed for filing the return. However, the corporation may elect to pay the tax in four equal installments, as follows: For the calendar year corporation, the first installment is to be paid on April 20; the second on June 20; the third on September 20; and the fourth on December 20 following the income year.

Fiscal year corporations paying the tax in installments are to pay as follows: The first installment on the 20th day of the 4th month, the second installment on the 20th day of the 6th month, the third installment on the 20th day of the 9th month, and the fourth installment on the 20th day of the 12th month, following the close of the fiscal year.

Notwithstanding the preceding, if the total tax liability under this chapter for the taxable year exceeds \$100,000, the taxes so levied shall be payable in twelve equal installments, in which case the first installment shall be paid on or before the tenth day of the first month following the close of the taxable year, and the remaining installments shall be paid on or before the tenth day of each calendar month after such date. If any installment is not paid on or before the date fixed for its payment, the department, at its election may cause the balance of the tax unpaid to become payable upon not less than ten days' notice and demand, and this amount shall be paid upon the date so fixed in the notice and demand from the department. This provision has been in effect since January 1, 1993.

Line 48.—Enter the total amount of franchise tax installments paid. Installment payments of the franchise tax are reported and paid on Form FP-1.

XVI. Enterprise Zone Tax Credit.

A qualified enterprise zone business is eligible to claim a credit for a percentage of franchise taxes due the State attributable to the conduct of business within a zone and a percentage of the amount of unemployment insurance premiums paid based on the payroll of employees employed at the business firm establishments in the zone. The applicable percentage is 80% the first year; 70% the second year; 60% the third year; 50% the fourth year; 40% the fifth year; 30% the sixth year; and 20% the seventh year. This credit is not refundable and any unused credit may NOT be carried forward. Attach Form N-756, Enterprise Zone Tax Credit, to support your claim for this credit.

XVII. Capital Goods Excise Tax Credit.

This 4% credit is available to Hawaii businesses on the acquisition of qualifying business property after December 31, 1988. See Form N-312 for more information.

If property for which a credit has been taken ceases to be eligible property or is disposed of, recapture of all, or part, of the credit received may be necessary. See the instructions for Form N-312, Part II for more information. Enter the amount of any credit recapture on line 40.

XVIII. Credit for Energy Conservation.

Each corporate resident taxpayer who files a franchise tax return for 1992 may claim a tax credit against its franchise tax liability for a solar or wind energy system, heat pump, or ice storage system installed and placed in service in 1992. Additions to existing systems (e.g., *additional* solar energy panels) and systems for a second home qualify for this credit. The cost of repairs to existing systems (e.g., *replacing* solar energy panels), however, **do not** qualify for this credit. The tax credit shall apply only to the actual cost of the solar or wind energy system, heat pump, or ice storage systems, including their accessories and installation, and shall not include the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system or heat pump (such as "free gifts", offers to pay electricity bills, or rebates).

The tax credit may be claimed for the following energy conservation systems installed and placed in service after 12/31/90, but before 1/1/99:

Type of Energy Conservation System	Tax Credit Rate
1. Wind energy systems	20% of the actual cost of the system.
2. Solar energy systems	
a. New and existing single family residential buildings	the lesser of 35% of the actual cost of the system or \$1,750.
b. New and existing Multi-unit buildings used primarily for residential purposes.	Per building unit: The lesser of 35% of each unit's actual cost of the system or \$350.
c. New and existing hotel, commercial and industrial facilities.	35% of the actual cost of the system.
3. Heat pumps	
a. New and existing single family residential buildings	the lesser of 20% of the actual cost of the system or \$400.
b. New and existing Multi-unit buildings used primarily for residential purposes.	Per building unit: The lesser of 20% of each unit's actual cost of the system or \$200.
c. New and existing hotel, commercial and industrial facilities.	20% of the actual cost of the system.
4. Ice storage systems	50% of the actual cost of the system.

Tax credits that exceed your franchise tax liability are not refunded but may be used as a credit against your franchise tax liability in subsequent years until exhausted.

To determine this tax credit, use Form N-306 and attach the form to the franchise tax return Form F-1 and enter on page 3, Schedule H, line 1, the amount of the credit claimed.

XIX. Low-Income Housing Tax Credit

Hawaii's low-income housing tax credit is equal to 30% of the federal credit for qualified buildings located within the State of Hawaii. The federal credit must be claimed in order to claim the Hawaii credit. Attach Form N-586, Tax Credit for Low-Income Housing, to the income tax return on which the credit is claimed.

Contact the Housing Finance and Development Corporation for qualifying requirements and further information.

XX. Deduction from Entire Net Income—International Banking Facility (IBF).

Certain qualified banks authorized to operate international banking facilities are eligible for a deduction from the entire net income of its operations. Section 241-3.5, HRS, allows the following deductions:

“(Sec. 241-3.5) **Deduction from entire net income.** There shall be allowed as a deduction from entire net income to the extent not deductible in determining federal taxable income, the adjusted eligible net income of an international banking facility, as defined in chapter 405A, determined as follows:

- (1) The eligible net income of an international banking facility shall be the amount remaining after subtracting from the eligible gross income the applicable expenses.
- (2) Eligible gross income shall be the gross income derived by an international banking facility from:
 - (A) Making, arranging for, placing, or servicing loan to foreign persons; provided that in the case of a foreign person which is an individual, or which is a foreign branch of a domestic corporation (other than a bank), or which is a foreign corporation or foreign partnership which is 80% or more owned or controlled, either directly or indirectly, by one or more domestic corporations (other than a bank), domestic partnership, or resident individual, substantially all the proceeds of the loan shall be for use outside of the United States;
 - (B) Making or placing deposits with foreign persons which are banks or foreign branches of banks (including foreign subsidiaries or foreign branches of the taxpayer) or with other international banking facilities; or
 - (C) Entering into foreign exchange trading or hedging transactions related to any of the transactions described in this paragraph.
- (3) Applicable expenses shall be any expense or other deduction attributable directly or indirectly, to the eligible gross income described in paragraph (2).
- (4) Adjusted eligible net income shall be determined by subtracting from eligible net income the ineligible funding amount, and by subtracting from the amount then remaining the floor amount.

(5) The ineligible funding amount shall be the amount, if any, determined by multiplying eligible net income by a fraction, the numerator of which is the average aggregate amount for the taxable year of all liabilities, including deposits, and other sources of funds to the international banking facility which were not owned to or received from foreign persons, and the denominator of which is the average aggregate amount from the taxable year of all liabilities, including deposits and other sources of funds of the international banking facility.

(6) The floor amount shall be the amount, if any, determined by multiplying the amount remaining after subtracting the ineligible funding amount from the eligible net income by a fraction, not greater than one, which is determined as follows:

(A) The numerator shall be:

(i) The percentage, as set forth in subparagraph (C), of the average aggregate amount of the taxpayer's loans to foreign persons and deposits with foreign persons which are banks or foreign branches of banks, savings and loan associations or foreign branches of savings and loan associations, as the case may be, (including foreign subsidiaries or foreign branches of the taxpayer), which loans and deposits were recorded in the financial accounts of the taxpayer for its branches, agencies, and offices within the State for taxable years 1980, 1981, and 1982, minus:

(ii) The average aggregate amount of such loans and such deposits for the taxable year of the taxpayer (other than such loans and deposits to an international banking facility); provided that in no case shall the amount determined in this clause exceed the amount determined in this subparagraph; and

(B) The denominator shall be the average aggregate amount of the loans to foreign persons and deposits with foreign persons which are banks or foreign branches of banks, including foreign subsidiaries or foreign branches of the bank, (or savings and loan associations, as the case may be) which loans and deposits were recorded in the financial accounts of the taxpayer's international banking facility for the taxable year.

(C) The percentage shall be one hundred percent for the first taxable year in which the taxpayer establishes an international banking facility and for the next succeeding four taxable years. The percentage shall be eighty percent for the sixth, sixty percent for the seventh, forty percent for the eighth, and twenty percent for the ninth and tenth taxable years next succeeding the year such bank or savings and loan association establishes such facility, and zero in the eleventh succeeding year and thereafter.

(7) If adjusted eligible net income is a loss, the amount of such loss shall be added to entire net income.

(8) As used in this section, the term “foreign person” means:

(A) An individual who is not a resident of the United States,

(B) A foreign corporation, a foreign partnership, or a foreign trust, as defined in section 7701 of the federal Internal Revenue Code of 1954, as amended, other than a domestic branch thereof,

(C) A foreign branch of a domestic corporation (including the taxpayer),

(D) A foreign government or an international organization or an agency of either, or

(E) An international banking facility.

For the purposes of this paragraph, the term “foreign” and “domestic” have the same meaning as set forth in section 7701 of the federal Internal Revenue Code of 1954, as amended.”

Attach your separate computation schedule to the Franchise Tax Return (Form F-1) and report the allowable deduction from entire net income on Schedule K, “Other Items of Deduction.”